

**GERMANY
TODAY
SPECIAL**

GERMANY'S ECONOMIC POSITION

by J. Kuczynski

A most illuminating and fascinating book. Gives facts and figures not hitherto available about the actual position of Nazi Economy, lays bare its strength and its weakness, shows where fascist economy is different from any other and where it is not. Scientific but not dull.

1

SIXPENCE

Publisher's Note

We are very glad to have secured for our first *Germany To-day Special*, Mr. J. Kuczynski, the author of "Labour Conditions in Western Europe," "New Fashions in Wage Theory," "Hunger and Work," and other valuable books on Economics.

CONTENTS

	<i>Page</i>
Chapter I. The Changing Structure of German Industry	7
Chapter II. The Last Two Years of Dr. Schacht	23
Chapter III. Fascist Economy—Is it Capitalist or Not?	35
Chapter IV. Reflections Upon a Standard of Living Policy in a Fascist Country... ..	45
Chapter V. The Standard of Living of the German People	52
Chapter VI. National Socialist Economy and Foreign Policy	64
Conclusion: When Will National Socialist Economy Break Down?	71

PREFACE

Millions and millions of people in Germany working under conditions of slavery, living the life of prisoners, millions of people in Austria, in the Sudeten territory and in Czechošlovakia, subjugated to the tyranny of gangsters from Germany, millions of people in the surrounding countries living in terror of what Hitler will do next—that is the picture of Europe to-day.

There is another picture: thousands of agents of National Socialism active day and night in foreign countries, in Switzerland, in Rumania, in France and here in Great Britain, spreading fairy tales about the life in "the New Germany," about the wonderful progress, about "the real purpose" of National Socialism, selling books or distributing films, making speeches at private dinners or "furthering cultural relations" or proposing increased economic intercourse, always alleging that their sole aim is the "promotion of world peace and understanding."

Once more the picture changes: again agents of National Socialism are active. Wherever they can they foment trouble, they incite peoples against each other, in districts populated by German minorities, or in other regions suffering from national oppression which, however severe, seems mild in comparison with the suppression of the German people in Germany. In Southern Denmark, in Transylvania, in Ireland, in Croatia they carry on their dirty business.

And a final picture: "respectable and objective" politicians and journalists and business men in all

countries of the world want to treat the tiger as if it were a donkey whose temper has been soured by the ill-treatment of two decades. Hitler isn't so bad—and if he is naughty it is only our own fault. After all we treated the Germans rather too harshly after the war. Hitler would quieten down if only one satisfied him in this or that respect. Let him have a little more land and some more raw materials—as long as they do not belong to us! It doesn't matter much, and Hitler will be satisfied—if not for ever, at least for quite a time to come.

In the meantime, the German armament industry and its political representatives Hitler, Göring and Goebbels conquer an ever-increasing part of Eastern Europe, prepare for an attack on Western Europe, build up their military machine, exploit and plunder the masses of Europe.

Hitler against the German people—Hitler against the peoples of Europe—Hitler out for world domination. That is the situation to-day.

This little booklet is published to show what National Socialism, what the rule of the armament industry, what Fascist war preparations mean to the German people. It is written to awaken the millions who have as yet vague ideas of the seriousness of the situation and of the true character of National Socialist economy.

May it help to rouse the masses of the world against National Socialism and its agents, conscious or deceived. May it help to clarify issues, to strengthen anti-Fascist understanding, and to inspire the people for anti-Fascist action against Fascist aggression from without and from within.

THE EDITOR, *Germany Today*.

CHAPTER I

THE CHANGING STRUCTURE OF GERMAN INDUSTRY

In 1932, when the crisis reached its peak, industrial production in Germany was almost half that of 1929. The index of industrial production in the third quarter of 1932 stood at 57.2 compared with 103.0 in the same quarter of 1929. Since then, i.e., six months before the National Socialist Party came to power, industrial production has begun to increase again, and has reached to-day a new high level:

INDUSTRIAL PRODUCTION IN GERMANY (1928=100)*

	1929	1932	1933	1934	1935	1936	1937	1938
First quarter	96	60	61	78	89	99	112	118
Second quarter	104	58	63	83	95	106	116	122
Third quarter	103	57	67	83	97	108	117	124
Fourth quarter	101	59	71	89	101	115	125	

Industrial activity, as a whole, is higher to-day than ever before in German economic history. But is it the same kind of activity that we could observe formerly and, if not, of what character is the change which has taken place?

Let us first study the two great branches of industrial activity: the production of production goods

*This and the following indices of production are computed and published by the *Institut für Konjunkturforschung* (Institute for Trade Cycle Research) in Berlin.

GERMANY'S ECONOMIC POSITION

or capital goods and the production of consumers goods. They developed as follows:—

PRODUCTION OF CAPITAL GOODS IN GERMANY (1928 = 100)								
	1929	1932	1933	1934	1935	1936	1937	1938
First quarter	93	43	47	70	88	99	115	126
Second quarter	110	48	53	76	100	115	128	138
Third quarter	105	45	55	80	104	119	129	139
Fourth quarter	105	48	60	82	105	119	131	

It is obvious that the production of capital goods has increased above the average. This increase was not only so great that it made up for the more rapid decline during the crisis; but has enabled the capital goods industry to gain considerably in importance as compared with the rest of industry.

The development of production of consumer goods is shown in the following table:

PRODUCTION OF CONSUMER GOODS IN GERMANY (1928 = 100)								
	1929	1932	1933	1934	1935	1936	1937	1938
First quarter	98	82	79	92	93	96	103	106
Second quarter	98	76	80	93	89	95	101	102
Third quarter	99	75	85	92	91	97	104	109
Fourth quarter	100	79	88	94	91	103	106	

Despite the inclusion since 1935 of the Saar territory in these statistics and an increase in the German population of approximately 10 per cent. since 1928, in spite of the fact that some of the consumer goods are used for military purposes, the production of consumer goods is only a little above the 1928 level.

So we have found the point in the structure of German industry upon which we must focus our attention: it is the production of capital goods. Let

CHANGING STRUCTURE OF GERMAN INDUSTRY

us investigate what capital goods have been produced in such rapidly increasing quantities.

The index of production of capital goods includes the following commodity groups:

Iron and Steel	Paper
Non-ferrous Metals	Potash
Engineering	Coal
Construction	Gas
Motor Vehicles	Electricity
Chemicals	

Let us now investigate in which of these industrial groups production has increased most as compared with the previous industrial production peak.

INDEX OF PRODUCTION IN 1938 FOR CAPITAL GOODS (1928 = 100)

Iron and Steel	...	...	...	151
Non-ferrous Metals	...	...	...	144
Engineering	...	...	...	147
Building	...	...	...	121
Motor Vehicles	...	...	...	182
Chemicals	...	...	...	127
Paper	...	...	...	121
Potash	...	...	...	131
Coal	...	...	...	123
Gas	...	...	...	117
Electricity	...	...	...	206

Which of these industrial groups deserves closer attention? It is not astonishing that the production of electricity has increased so rapidly. In modern industry there is a general tendency for electricity to increase in use, and a very rapid increase, such as has taken place in Germany, only signifies that the general technical standard is improving in certain

GERMANY'S ECONOMIC POSITION

respects. But it does not indicate the changes in the structure of industry. The increase of coal production is not significant in itself but is simply a reflection and a result of the general increase in industrial production, especially in the heavy industries. The increase in the production of chemicals (which are covered only insignificantly by the index), of potash, of paper, of building, and of gas is not great enough to require our attention. There remain four industrial groups upon which we must direct our attention. All are part of the metal and engineering industries, and it is these two sections of German industry which are responsible for the changes in the structure of German industry.



During 1938 Germany produced more than twice as much iron ore as in 1929; pig iron production was about 50 per cent higher; raw steel production had increased by about two-fifths.

Lead production in 1938 was almost double that of 1929; zinc production has increased only a little less.

New orders in the machine industry (engineering) were about fifty per cent higher in 1938 as compared with the same period in 1929.

The number of car licences has doubled from 1929 to 1938; and the same is true of lorries.



Before we reach the point where we have to explain what is behind this extraordinarily unequal develop-

CHANGING STRUCTURE OF GERMAN INDUSTRY

ment of German industry, we want to give one more general survey which will help to explain the reasons for the changes in the structure of German industry:

INDUSTRIAL PRODUCTION IN SELECTED GERMAN INDUSTRIES AND INDUSTRIAL BRANCHES IN 1938 (1928 = 100)

Production of Toys	...	...	85
General Production	...	...	125
Production of Capital Goods	...	...	136
Production of Pig Iron	...	...	157
Production of Lorries	...	...	205
Production of Copper	...	...	304

Why have we arranged these industries and branches of industries in such a way? Why has the production of copper increased infinitely more than the production of toys?

The reason is that toys are of no use for armament purposes while copper is one of the most important armament raw materials.

Toys have not the smallest armament value. The percentage is higher in the index for the total of industrial production, and therefore the general index of production has increased more than that for toys; the percentage is higher still in the index of production of capital goods, for this excludes the consumption industries which are of little use for armament purposes; it continues to rise in the pig iron industry which is one of the basic industries for armament production; but it is not quite as high here as in the lorry industry where even fewer non-armament articles are produced. The highest rise however is in the production of copper which is one of the most valuable and important of armament raw materials.

GERMANY'S ECONOMIC POSITION

If one looks at German economy as an organisation intended to produce armaments as quickly as possible, the changes in the structure of German industry become understandable.

Armaments require a rapid increase of production in the heavy industries. The armaments industry necessitates the production of ferrous and non-ferrous metals, of iron and steel, lead, zinc, nickel, etc. Armaments in addition mean a considerable rise in constructional activity for purposes of military buildings and roads.

If it were possible to compare statistics of finished armament products with statistics of other industrial products this cause for structural changes in German industry would be even more obvious. But for reasons of secrecy no reliable statistics of armament production are published—either in Germany or in any other country.

There is, however, one industry, that of building and construction, reports of which afford us glimpses of the truth. Germany publishes statistics of public and private construction activity. If we assume, and we can do so safely, that a very high percentage of the public construction activity is for military purposes, the extraordinary intensity of military production as compared with civilian production becomes clear.

According to the computations of the *Institut für Konjunkturforschung* (Institute for Trade Cycle Research) in Berlin residential building activity and total construction activity developed as follows:

CHANGING STRUCTURE OF GERMAN INDUSTRY

Year	Net Addition of Flats	Index of Construction
1928	309,762	100
1929	317,682	102
1932	141,265	33
1937	315,000	133

The index of construction has increased far more than the index of residential building activity: the reason being that an increasing percentage of constructional activity has been devoted to public buildings which is mainly military construction.

Fortunately we are not forced to arrive at this conclusion simply on the basis of the above figures, but the *Institut für Konjunkturforschung* also publishes figures of public construction activity as a percentage of total construction activity.

PUBLIC CONSTRUCTION ACTIVITY AS PERCENTAGE OF TOTAL CONSTRUCTION ACTIVITY

1928	...	...	31 per cent.
1929	...	...	30 " "
1932	...	...	41 " "
1937	...	...	73 " "

The proportion of public construction work has more than doubled since 1928/29. But even these figures do not indicate the full extent of the increase in military construction activity: for in the percentage figures of 1928, 1929, and especially 1932, a high percentage of public residential activity is included; during these years, and especially during the crisis, the Reich, the States and the communities spent considerable sums on subsidies for private residential buildings, while to-day these subsidies have almost

GERMANY'S ECONOMIC POSITION

ceased. If one excludes residential building, then the share of public construction activity has more than trebled since 1932.



The few data we have given on the development of industrial production to-day, towards the end of the economic crisis (i.e., immediately before the National Socialists were admitted to the government), and before the crisis, show that a considerable change in the structure of German industry has taken place. They show that this change has been caused by a rapid expansion of the armament industry.

But only to look at the development of industrial production in order to gauge the importance of these changes in the structure of German industry would be an artificial restriction of our survey and would tend to shroud the whole extent of these changes and its ramifications in other sections of German industry. In the following pages we shall show the reflections of these structural changes in a few other branches of German economy.

The effect of the changes in the industrial structure of German industry can also be observed, as reflected in the development of German imports. If armaments play a paramount rôle, if heavy industrial production forges far ahead of other branches of industrial production, then, in a country as dependent as Germany upon the import of raw materials, a decisive change in the whole character of the goods imported must take place.

Let us compare the imports of a number of important commodities in 1929 and 1938:

CHANGING STRUCTURE OF GERMAN INDUSTRY

NET IMPORTS OF SELECTED COMMODITIES INTO GERMANY Quantities (1,000 tons)

Commodity	1929	1938
Iron ore	15,794	21,926
Manganese ore	389	425
Copper ore	430	654
Lead ore	114	141
Zinc ore	95	138
Rubber	49	108
Raw cotton	358	351
Raw wool	161	165
Wheat	1,820	1,268
Lard	125	42
Cheese	64	32
Eggs	168	102

As was to be expected, the trend and the structure of German import trade has changed, corresponding to the changes observed in the structure of German industry. Imports of importance to the armament industry have increased rapidly and far surpass the highest level reached at any previous peak. Imports of importance to industries producing goods for civilian use or food imports have either remained stable or have even declined, in spite of the fact that a small percentage of these goods is also used for military purposes and is thus taken away from the consumers, and in spite of the fact that the number of consumers to-day is considerably greater than in 1929.



The effect of these restrictions placed on imports of raw materials for the production of consumer goods has been extraordinary. Partly, as was to be expected, it has led to considerable difficulties for the producers

GERMANY'S ECONOMIC POSITION

who cannot obtain as many raw materials as they may need. Partly it has led to attempts to find ways of overcoming these difficulties, attempts which are anything but advantageous to the quality of the goods produced: it has led to the development of substitute producing industries.

Most of the substitutes in the food industries are nothing but what one would formerly have called "adulterations." Bread is now a mixture of wheat or rye flour and a number of other ingredients, such as potato flour, which improve neither its quality nor its taste. There are sausages in Germany to-day which consist chiefly of ingredients other than meat, including a variety of fish products. Such substitutes are nothing new in the history of food shortages, and many examples can be found in the history of besieged cities.

In the textile industry, on the other hand, a considerable number of new products have been introduced. These products do not consist, or only partly consist, of the usually imported raw materials. For their production either home products (wood, straw, glass, etc.) or relatively cheaper imported raw materials (e.g., wood) are used. It would be wrong to regard these industries as complete liabilities to the country. Very probably quite a number of substitute products will in the course of time be developed into really useful industrial goods. To-day, however, they are not yet developed as far as they should have been before being sold to the consumer. While in the course of time they may, through more research, become valuable and useful, they are to-day regarded by

CHANGING STRUCTURE OF GERMAN INDUSTRY

most of those who have to buy them as a fake because of their low quality.

The importance of the production of such goods is quite considerable. The production of *Zellwolle* (staple fibre), for instance, was in 1938 more than double that of rayon. Probably more than 15 per cent of the total fibre used in the German textile industry in 1938 will be *Zellwolle* fibre. It is of interest to note in this connection that in 1938 about nine-tenths of the total *Zellwolle* production of the world was produced by Germany, Italy and Japan, three countries who are more bent than any other country upon preparing for war, three countries very dependent upon imports of raw materials, three countries who, therefore, try as much as they can to restrict the imports of non-armament raw materials and who have to find some kind of substitute for them.

Developments in industries using a high percentage of non-ferrous metals in some cases take the form simply of adulteration, like those in the food industry, in others they consist in the invention of substitutes like those mentioned above which, if better developed, may become of real use but which have entered the market too early from a purely technical point of view, as well as from the point of view of the consumer. The electro-industry, for instance, which always used a considerable percentage of the copper consumed in Germany, now tries to replace copper, as far as goods for civilian use are concerned, by aluminium and other substitutes. No private telephone line may now be built if copper is to be used, and the same holds true

GERMANY'S ECONOMIC POSITION

for innumerable other products destined for the civilian consumer.



We must also say something on the effect upon public and private financing activities of the change of German industry, from one almost exclusively occupied with the production of civilian goods (by no means only consumer's goods) into one trying to produce as many armament goods as possible. The effect has been an extraordinary one, and there is no field in economic activity in which it can be observed as clearly as in the field of financing production. For the decisive difference between financing civilian and financing armament production is that armaments are almost always completely financed by the State, while the share of the State in the financing of civilian production has always been very small. Hardly any armaments are produced except upon public orders (either from home or from foreign states), because very few private armed bodies of importance exist to-day. The German Government is interested in arming Germany as heavily and as quickly as possible, and one can say that almost the whole of German armament production is ordered and paid for by the Reich.

One can therefore say that an increasing part of the total German production is paid for by the State, while private financing has absolutely as well as relatively declined. Or, putting it in another way, the heavy industry, that is the armament industry, collects an increasing part of its orders from

CHANGING STRUCTURE OF GERMAN INDUSTRY

the State, which has, through increased taxation, forced loans, etc., to collect an increasing part of the national income for the purpose of ordering armaments and paying the armament producers.

"The Banker," February, 1937, and "The Financial News," July 5, 1937, give the following estimates of German armament expenditures:—

GERMAN ARMAMENT EXPENDITURES (1,000 million marks)

1932	...	...	...	1.0
1933	...	...	...	3.0
1934	...	...	...	5.5
1935	...	...	...	10.0
1936	...	...	...	12.6
1937	...	...	...	15.0

Armament expenditures, as a percentage of the total national income, are as follows:—

1932	...	...	2	per cent.
1933	...	...	6	" "
1934	...	...	11	" "
1935	...	...	18	" "
1936	...	...	20	" "
1937	...	...	22	" "

Armament expenditures are not identical with expenditures for armament production. Military expenditures include soldiers' pay, the buying of land for various purposes, etc. If one estimates the share for expenditure on armament production at between one-third to two-fifths of the whole military expenditure, one arrives at a figure of between 5 and 6 thousand million marks spent on armament produc-

GERMANY'S ECONOMIC POSITION

tion—that is about 25 per cent. of the whole value of industrial production in 1937.



How was this increased armament production financed? Outside Germany, and also within Germany, there have been many rumours about the financial side of the German armament drive. Floating debts were alleged to be 40 or 50 or even 100 thousand million marks. But these estimates are quite wrong, because their authors, instead of taking the trouble of looking at the published figures, preferred to make their own estimates.

During the financial year of 1937/38, tax receipts were about $7\frac{1}{2}$ thousand million marks higher than in 1932. About 3 thousand million marks came in through long-term (forced) loans. These two items alone already explain about $10\frac{1}{2}$ of the 14 thousand million marks increase in military expenditures in 1937/38 over the 1932 level. The remaining $3\frac{1}{2}$ thousand millions have been collected through loans from the railways (for military road building) and the unemployment insurance fund (from its growing surplus), amounting to over one thousand million marks, through forced collections for various purposes (A.R.P., etc.), amounting to nearly 500 million marks, and finally through uncovered bills used by the Government as means of payment to the not inconsiderable, but by no means spectacular, amount of about two thousand millions.

There is, thus, nothing very mysterious about the financing of German rearmament. It has been

CHANGING STRUCTURE OF GERMAN INDUSTRY

done in a very "orthodox way"—by taking it out of the people chiefly through heavy taxation.



Concluding the description of the changes in the structure of German industry, we can summarise:

(1) industrial production has been changed structurally in so far as:

- (a) the importance of heavy industrial production (more specifically of armament production) has increased rapidly during the last five years;
- (b) the importance of industries producing chiefly for civilian, for peaceful uses, has declined, and the character of these industries has changed not only through their diminished importance, but also through the partial replacement of reputable goods by unsuitable or not yet successful substitutes.

(2) the import trade has changed structurally in so far as it is concerned more and more with the securing of as many armament raw materials as possible at the expense of raw materials and foodstuffs useful for civilian, peaceful consumption.

(3) the Reich has become the greatest consumer of industrial production goods through buying enormous quantities of armaments, and consequently its share in the financing of industrial production has increased so rapidly that in 1937 about 22 per cent. of the total national income has been used by the Reich alone for financing military expenditure.

As prime cause of the changes in the structure

GERMANY'S ECONOMIC POSITION

of German industry, we indicated the desire to increase armaments as quickly as possible; a more detailed survey of the changes in individual groups and branches of industry, and of the changed character of the German import trade showed this quite clearly.

CHAPTER II

THE LAST TWO YEARS OF DR. SCHACHT

Dr. Schacht is a comparatively unimportant person—but his name stands for certain sections of opinion within the group which to-day rules Germany, and because the changes in his position during the last two years reflect certain changes in the economic situation in Germany it is convenient to follow up the development of German economics during the last 30 months by observing his career.

Dr. Schacht had been one of the leading German officials and advisers on economic affairs since 1924. He always took an aggressive line and demanded colonies no less than 12 years ago. Long before Hitler came to power he advised him occasionally, and the local branch of the National Socialist party in the neighbourhood of his farm was always sure of a good welcome from him. He contributed generously to the party in the year before its rise to power.

Since the beginning of 1933, Dr. Schacht represented the extreme and aggressive wing within the capitalist class. He was closely allied with the so-called semi-armament industries, the chemical industry, the construction industry, the machine building industry, the electro-industry, and so on. Like Göring and Goebbels and Streicher, like Krupp and Thyssen and Siemens, he did his best to rearm

GERMANY'S ECONOMIC POSITION

Germany as quickly as possible for aggressive acts against her neighbours. Like them, he is fully responsible for the terror reigning in Germany, for the deterioration of the living conditions of the masses of the German people, for the invasion of Austria, intervention in Spain, and the dismemberment of Czechoslovakia.

During the years 1933 and 1936, and during the first half of 1937, he happily levied new taxes, enforced brutally existing taxes, enlarged the number of forced collections, strangled imports and tried to raise exports by fraudulent means and aggression.



In the middle of 1937 the first serious economic crisis occurred in Nazi-Germany—and Dr. Schacht was sitting on the wrong horse. The crisis was brought about through the iron shortage. There had formerly been a shortage of food, of textiles, and of numerous other raw materials, most of them of prime importance to the masses of the consumers. But this shortage did not affect rearmament—it was caused by it, therefore it did not bother the present-day rulers of Germany seriously. The shortage of copper, nickel, zinc, etc., chiefly touched the armament industries, but it was never great enough to embarrass the armament production since these armament raw materials are not so expensive as to make it difficult to increase whenever necessary imports to the level required.

It was different with iron. Iron is, of course, the most important war material, and at the same time iron is used in considerable quantities for civilian purposes (housebuilding, for instance) and cannot be

THE LAST TWO YEARS OF DR. SCHACHT

suddenly forbidden for civilian consumption as copper or zinc can be, and were. The iron shortage could be solved only by a certain reduction of its use for civilian purposes and by a rapid increase of the supply of iron. The rapid increase in the supply of iron could be brought about either by a rapid increase of iron-ore imports or by lifting the level of home production to unprecedented heights. Germany has not inconsiderable iron-ore resources, but this iron-ore is of a very low quality and its mining is unprofitable, costing very much more than any other iron-ore mining in the world.

The trade situation, the shortage of gold and foreign exchange made it advisable to think twice before favouring a rapid rise in imports. Dr. Schacht thought twice, but came to the conclusion that it would be best to increase iron-ore imports at the expense of other imports, of value "only" to the masses of the people. The iron and steel industry was not interested either way, as long as it got its iron at a reasonable price. The army experts favoured increased home production for reasons of expediency in case of war—always fearing a possible blockade.

When the first serious discussions took place there were three parties: the army wanted an increase in home production; Schacht wanted higher imports (for reasons which will become obvious at once, he was the spokesman of the semi-armament capital), and the iron and steel industry which had its own plans and waited to see how the discussion would develop. The army really was no party, but simply represented a group of experts, proposing the best

GERMANY'S ECONOMIC POSITION

plan for the preparation of an aggressive war which was in the interest of all the parties concerned. As soon as the army had proposed its plan, the iron and steel industry was asked whether they could increase production to the required amount. Its spokesmen answered that they could not do this, since this would be unprofitable. Krupp and Thyssen against the army? No, the situation was quite different. Krupp and Thyssen agreed, of course, with the army, the army representing at the discussion table nothing else but a group of experts trying to work out a policy which would provide the armament industry with the necessary raw materials. Krupp and Thyssen agreed with the army experts that home production should be furthered, and yet at the same time they declined to increase production. The solution proposed was a most ingenious one. The iron and steel industry suggested that a Reich company should be formed to mine the ore, that the cost of this unprofitable business should be borne by the whole German people and that the iron and steel industry should receive the iron at the usual price from this company. The policy pursued by the iron and steel industry is the well-known one of socialising the losses and privatising the profits. The unprofitable business of mining the ore was to be done by a company (which was later known as the *Hermann Göring Werke*) at public expense, and the profits from the use of the iron in the production of armaments should go to Krupp and Thyssen, the armament producers.

The chemical capital, the construction capital, the electro-capital, and so on, which took part in these

THE LAST TWO YEARS OF DR. SCHACHT

discussions, objected to this plan and favoured increased imports. Schacht was their spokesman. This was how they argued: The expenses of this company would have to be borne by all. The money would come back to the armament producers through state orders, yielding enormous profits. The other producers, however, who were engaged to a smaller extent, or not at all, in the production of armaments would have to pay more taxes just like the armament industry, but without getting them back in the form of profits. For the burden of such additional financial demands can seldom be transferred wholly to the masses of the people by price increases if these masses are living on a very much lowered standard. Hence there was a united front of chemical capital, and other semi-armament industries, supported by industries producing almost exclusively for civilian use, such as the textile industries and the food industries against this plan of the iron and steel industry.

While Schacht sided with these industries, Göring was the chief spokesman for the iron and steel industry. The iron and steel industry was victorious in these discussions, the *Hermann Göring Werke* were founded, and in November, 1937, Dr. Schacht was dismissed from the Ministry of Economics.



A year later new and more serious difficulties broke out, and German economy is still in the midst of them. It was not a raw material crisis—though the raw material difficulties are increasing—it was, and is, a financial crisis of the first magnitude.

GERMANY'S ECONOMIC POSITION

We remember from the first chapter that the enormous German armament programme was financed up to 1937 chiefly from taxes and customs receipts, then by long-term loans and forced collections, and finally by short-term loans, chiefly in the form of bills.

REVENUE DURING THE FINANCIAL YEAR APRIL, 1937/MARCH, 1938 (Milliards of Marks)

Taxes and Customs Receipts	...	...	...	...	14.0
Collections and from the Unemployment Insurance Fund	...	...	...	...	1.4
Long-term Loans	...	...	...	...	3.3
Short-term Loans (chiefly Bills)	...	...	...	...	4.3
Total Revenue	...	...	...	...	23.0
Per cent Long-term Loans	...	...	...	...	14.3
Per cent Short-term Loans	...	...	...	...	18.7
Loans, Total Percentage of Revenue	...	...	...	...	33.0

REVENUE DURING THE FIRST 8 MONTHS OF THE FINANCIAL YEAR APRIL, 1938/MARCH, 1939 (Milliards of Marks)

Taxes and Customs Receipts	...	...	...	...	10.9
Collections and from the Unemployment Insurance Fund	...	...	...	...	1.0
Long-term Loans	...	...	...	...	4.4
Short-term Loans	...	...	...	...	2.7
Total Revenue	...	...	...	...	19.0
Per cent Long-term Loans	...	...	...	...	23.2
Per cent Short-term Loans	...	...	...	...	14.2
Loans, Total Percentage of Revenue	...	...	...	...	37.4

THE LAST TWO YEARS OF DR. SCHACHT

The percentage which loans form of the total revenue has appreciably increased during the present financial year, and since the period covered in the second table the share of total loans in the total revenue has further increased.

The consequences of the credit-expansion policy of the Reich are recognised best by a study of the development of currency circulation.

INCREASE IN THE AMOUNT OF MONEY IN CIRCULATION

PERIOD				MILLIARDS OF MARKS
January, 1937, against January, 1936	...	...	...	0.6
January, 1938, against January, 1937	...	...	...	0.4
April, 1937, against April, 1936	...	...	...	0.6
April, 1938, against April, 1937	...	...	...	1.1
July, 1937, against July, 1936	...	...	...	0.7
July, 1938, against July, 1937	...	...	...	1.6
October, 1937, against October, 1936	...	...	...	0.6
October, 1938, against October, 1937	...	...	...	2.6
January, 1938, against January, 1937	...	...	...	0.4
January, 1939, against January, 1938	...	...	...	2.8

The increase in money circulation was a very rapid one. Credit expansion brought about the danger of inflation. At the same time the demands of the armament industry became more and more exorbitant. The preparation of the invasion into Austria had cost much more than expected. Half a year later the preparation of the attack on Czechoslovakia had cost even more. And immediately after Munich the

GERMANY'S ECONOMIC POSITION

preparation of a new coup was begun and armament expenditures rose to absolutely unexpected record heights.

There was again unanimity among all the big industrial monopolies, their experts in the army, and their financial experts, among them Dr. Schacht, that the rapid increase in armament expenditures was absolutely necessary. Dr. Schacht was just as much for increased armaments as Herr Funk and Krupp and Thyssen, the generals and Herr von Siemens representing the electro-industry, or Herr Schmitz from the Dye-Trust.

But again a difference arose about the methods. The armament industries, after everybody had agreed that armament expenditures had to be increased rapidly, were in favour of a considerable rise in taxation. One spoke of a capital levy amounting to 10 or 15 or even 20 per cent. Such a levy would have the following advantages according to a spokesman of the armament industries:—

(1) it would stop the too rapid increase of money circulation, and thus at least postpone the danger of inflation;

(2) it would not fall too heavily on the workers who, especially after Munich, had developed a more and more active opposition, which, making demagogic use of the consequences of inflation, might develop into a most serious danger to the whole system of capitalism. The capital tax, on the other hand, would be transferred only partly to the masses of the people through price increases, because such price increases could not be so great that the whole of the tax would

THE LAST TWO YEARS OF DR. SCHACHT

be transferred upon the masses of the people since their standard of living was so low already that a corresponding price increase would rapidly lead to a rapid fall in sales and serious disturbances;

(3) it would fall heavily upon the craftsmen and would drive many of them into bankruptcy; this would be very advantageous since it would drive them as skilled workers into the factories;

(4) it would fall heavily upon the small tradesmen, of which there are too many, anyway, and a further spread of bankruptcy among them would favour the multiple shops and large department stores;

(5) it would fall partly also on industry as a whole, including the armament industries, but the higher the percentage of armament orders in an industry the less important the tax—since the armament industries get it back and, more than that, through State orders and the ensuing profits; thus the iron and steel industry, for example, producing more armaments than civilian goods, would benefit from the taxes paid by the textile industry, the shipping concerns, etc.; the chemical industry, on the other hand, would benefit only as far as it does armament work, while the major part of its production, which is for civilian purposes, would be taxed without receiving the benefits from state orders.

Under such circumstances it is understandable that the proposals of the armament industry met severe resistance from the semi-armament industries and from the rest of industry. Again the iron and steel industry and the rest of industry was on opposite sides. But again the protagonists on both sides, the iron and steel industry on the one, and the chemical,

GERMANY'S ECONOMIC POSITION

construction, electro- and other semi-armament industries on the other, were unanimous in their desire for higher armaments.

These other industries were against increased taxation and for a further and more rapid credit expansion, that is definitely for inflation. The reasons why they were against increased taxation are obvious from what we said above. They did not like being burdened with taxes which they could neither transfer completely to the masses of the people nor get back in the form of vastly increased profits from state orders. Since there is no other alternative to increased taxes, they favoured inflation. Inflation would not single them out from the rest of industry for a special burden; very probably they remembered well the last period of inflation, when a textile industrialist profited just as much as an iron and steel industrialist.

This time Dr. Schacht did not side with those industries which were opposed to the iron and steel industry. He sided with the iron and steel industry in favour of increased armament expenditure to be financed out of higher taxation.

The resistance against an increase in taxation was such that the iron and steel industry did not press its point sufficiently strongly to get its plans forced through. It is doubtful whether the iron and steel industry pressed as hard as it could since it was a question of method and everybody agreed that armament orders had to be increased. Anyway, it gave in—and as a result Dr. Schacht was eliminated from the inner circle of advisors and dismissed from the Reichsbank. Herr Funk now takes his place—he is known to be in

THE LAST TWO YEARS OF DR. SCHACHT

favour of credit expansion, that is of inflationary methods*.

But one must not draw from this the conclusion that there will be necessarily an inflation in Germany as it was witnessed in 1922 and 1923. The iron and steel industry has given in—for the time being. The Krupps and Thyssens are convinced that within a very short time the financial methods of Herr Funk will have widespread repercussions. They are convinced that prices will soon begin to rise, that the unrest among the masses of the German people (growing even without inflation from week to week because of the constant pressure on the standard of living and because of the growing opposition to a policy which as more and more people realise must lead to war) will rise rapidly. They are convinced that soon the rest of industry will come back to the discussion table, not to discuss again the methods of financing increased armament orders, but to concede every point to the iron and steel industry; that is, to declare their readiness to accept increased taxation, combined with a light credit expansion, as financial programme for the future.



Dr. Schacht has gone. It is immaterial whether he will return or not. In any case, he will be as he has been since many years in favour of an aggressive war policy. Whether he will return or not, German

*The correctness of this analysis has just been proved by the publication, on March 24, 1939, of the new finance plan. This provides for credit expansion by an unlimited issue of bills as payment for armament expenditure.

GERMANY'S ECONOMIC POSITION

armaments will increase and the financial crisis will develop rapidly.

Dr. Schacht has changed sides several times. He started as a democrat—he ended as a National Socialist. Under National Socialism he first sided with the semi-armament industries against the iron and steel industry, and then he sided with the iron and steel industry against the semi-armament industries. Both times he lost his job, first as Minister of Economics and then as president of the Reichsbank. This unscrupulous cavalier of chance is interesting only as a representative of a class which has long lost whatever morale it might once have had. He is interesting only because his recent migrations from one camp to the other and his fortunes and misfortunes are reflecting some of the more important fights within the group which to-day rules Germany and menaces the peace of Europe.

Herr Funk, who has taken his place, has had the fortune to sit on the right horse for some time. The principles he holds are neither better nor worse than those of Dr. Schacht. His strength lies in his finger tips and his ears, which enable him to gauge somewhat better than Dr. Schacht did the different shades and movements within the circle of warmongers and frauds governing Germany to-day. If his financial methods do not succeed, he will, if he is lucky, be able to change them quick enough without giving offence; if he is unlucky, he will be replaced by another scoundrel.

CHAPTER III

FASCIST ECONOMY—IS IT CAPITALIST OR NOT?

German Fascism has decreed that dividends should not pass a certain percentage (usually 6 per cent.). German Fascism has issued various decrees regulating the distribution of raw materials, imports and exports, investments, production and consumption. The employer is not free to buy what raw materials he wants; he cannot use the raw materials he has been permitted to buy for the production of any commodities he wants; he cannot sell the raw materials he produces to whom he wants; and all prices are fixed. The employer is not free to enlarge his factory if he wants to, and at the same time he is not free to close part of it if he wants. The State makes enormous investments and takes over part of the business usually undertaken by private business. Is this still Capitalism? Is it Socialism, as many say? Or what is it?

Let us begin with a short definition of capitalism. Capitalism is production on a social basis (all take part in it) with privately owned means of production for the benefit of the owners of these means of production; the underlying motive for production is the quest for increasing profits.

Is this definition still true for German Fascist economy? Take, for example, the decree limiting the

GERMANY'S ECONOMIC POSITION

amount of dividends to be paid. Is this still to be combined with the profit motive? Undoubtedly it is. But how? If profits cannot increase, but are artificially restricted, how can one say that the quest for increasing profits is still the dominant motive of economic activity in Germany? This is the solution for this seeming contradiction. Dividends are not identical with profits. Nobody will deny that the profits of many big American industrial establishments during the 'twenties had risen sharply, and yet, if one looks at their dividend payments, there are a number which did not pay any dividends at all. Are Herr Thyssen or Herr Krupp dependent upon dividends alone? Do Herr Poensgen and other iron and steel industrialists get no increasing profits if dividends are fixed? On the contrary, if dividends are fixed, they are better off than before. All the money they want for personal use they get not only as chief stockholders in the form of dividends (of these they get at least 6 per cent., which corresponds to the yearly income of hundreds or even thousands of their workers), but also, as directors or chairmen or whatever position they have in the big iron and steel undertakings, they can increase their salaries and bonuses as much as they want to. But if they should have to increase dividends beyond 6 per cent. they would be very unhappy, because this would mean that the thousands of small stockholders share to an increasing percentage in the profits of these trusts. The rest of the money which otherwise would have had to go to minor stockholders is now, with the help of the decree on dividends, kept in the possession of the

trust, and it is either used for new investments (increasing the amount of means of production in the hands of the employers, and thus increasing their exploitation facilities) or it is kept in the banks to improve the financial (cash) position of the trusts.

Thus the decree on dividends not only does not limit profits, but, on the contrary, it helps to concentrate profits to an increasing degree in the hands of the big stockholders, who are, at the same time, the real masters of the trusts and their chief directors. The decree on dividends really has nothing to do with limitation of profits and socialism; on the contrary, it is concentrated capitalism and helps to increase the profits of a selected group of large capitalists at the expense of numerous smaller capitalists.



The next question is the regulation of national economy by State orders, the really serious restriction in the freedom of disposition put on almost all employers. But if we study this question in more detail, we see at once what is behind this State regulation. Who is the real ruling group in Germany to-day? It is the armament industry and its close allies, the semi-armament industries. And do they suffer from the regulation of raw materials, are they prevented from extending their plants as much as they want to, are they hindered in any way in their production, in their sales, are they inconvenienced by import or export restrictions? No, they are not. On the contrary, all these restrictions, all these State regulations have been put into force in order to save them any inconveniences.

GERMANY'S ECONOMIC POSITION

The enormous consumption of raw materials by the armament industries has led to a shortage of raw materials. What does the Government do? In the interests of full raw material supply for the armament industries it restricts the liberty of numerous other employers. The armament industry arranges for quick and good payment of its goods by the State. In order to enable the State to get all the money available on the money market, the armament industry decrees through the State that under no circumstances are new investments to be made, that no new loans for new investments are to be issued by any industry, except by permission of the State, so that the State is able to collect all the money available for itself; that is, for the armament industry. Enlarged production of consumer goods would endanger the supply of the armament industries with raw material, with money and with labour forces. Therefore the civilian industries have to be restricted in their use of these things. Thus, the so-called regulation and the often-mentioned restrictions of the liberty of the employer are revealed as nothing but a certain restriction of the liberties of certain groups of employers to the advantage of other groups—those producing armaments.



The question arises, is it still capitalism if only part of the employers can enjoy the full liberties to which capitalists have been accustomed in the period of "liberal capitalism"? This question should have been raised fifty years ago when monopolies began to develop. This question might have been raised by craftsmen and small employers half a century ago.

And it would have been answered: of course, capitalism still prevails, though one should call it monopoly capitalism. What is occurring to-day in Germany is nothing but the rule of armament monopoly capitalism. It is absolutely straightforward development, has its inner-logic and does not represent any kind of a break with the past. What is happening to-day in Germany is nothing but the emergence of a still smaller group of capitalists, the most reactionary and imperialist section of finance-capital, as the dominating force in national economy. And this small group of finance capitalists rules Germany absolutely according to the rules of capitalism. There is nothing un-capitalistic, nothing anti-capitalistic, nothing socialist in the ways and means by which the armament industries rule Germany to-day.



One final question will be asked: How about the development of State enterprises? Does not the founding of the *Hermann Göring Werke* present some kind of intrusion of the State in the sphere reserved chiefly for private capitalism, and is it not doubly important that the State interferes just in the field covered by the armament industries? Is it not disturbing for the armament capitalists to see the State entering the field of iron production? We have at another place in this booklet (see p. 26) already explained why the State entered into the business of iron-ore mining and pig-iron production. The reason is a very simple one. The iron-ore mined by the State is an unprofitable business for the iron and steel industry; furthermore, the smelting of this iron-ore is,

GERMANY'S ECONOMIC POSITION

because of its composition, a costly business for the armament industry. Therefore, the State did not enter the iron-producing sphere on its own initiative, but it was forced by the armament industry to enter this field, so that the armament industry could receive at the usual market price the pig-iron produced by the *Hermann Göring Werke* at public expense, with the tax payments of the population and of the civilian part of industry. There is nothing socialistic about it, but it is simply a new trick of the armament industries to secure a good supply of iron at the expense of everybody else.

Thus we come to the conclusion that Fascist economy is capitalist, and nothing else. It is neither socialist nor any other kind of economy. It is capitalist economy.



And yet, though German fascist economy is undoubtedly capitalist, it is not sufficient simply to prove this fact; it is important also to point out some of the differences between a Fascist economy and that, for instance, of Great Britain.

The great difference is chiefly that: in Great Britain finance-capitalism as a whole, textile capital, export capital, bank capital, iron and steel capital, chemical capital, and so on, form the ruling class. In Germany, chiefly the armament and the semi-armament industries rule the country. In both countries the State is the instrument of rule. But the rôle of the State is a somewhat different one in both countries. The interests of the different capital groups in Great Britain do naturally often clash. The interests of the

FASCIST ECONOMY—CAPITALIST OR NOT?

textile industry are not only different from those of export capital houses, but are often even opposed to them. If a bank has an opportunity to invest profitably in a textile concern promoted in India, the English textile industry is opposed to it since it has no interest in expanding Indian textile industry at the expense of British textile industry. The Government of Great Britain has the task of conciliating the different interests of the different capital groups by compromise, by favouring first the one and then the other group, and so so. The Government of Great Britain does not stand above classes, not even above the ruling classes, but it is composed of representatives of the different groups within the ruling class and tries to balance out the opposing interests of these groups—and what is of course even more usual, it executes the orders which are given to it by unanimous consent of the different ruling groups.

In Germany the state is an instrument in the hands of one single group of finance-capital, the most reactionary, the most chauvinistic, the most imperialist part of the ruling class, the armament and the semi-armament industries. It does not need to balance the differing interests of the textile industry and the iron and steel industry. It obeys the orders of the iron and steel industry. It is an instrument in the hands of one single group within the ruling class. One single group of the ruling class has a political monopoly; that is, it has a monopoly on the Government and on the State. This does not exclude the fact that within the monopolist group certain differences arise from time to time. We have had ample oppor-

tunity in Chapter II to point out such occurrences. But on the whole they are rare.



This difference in the structure of capitalist society in Great Britain, for example, and in Fascist Germany, has had a certain influence on the relation between the different groups within finance-capital. One of the most interesting is the influence upon the relation between the banks and the industrial companies. Finance-capitalism means a capitalism in which the industrial and bank capital are merged; the heads of the banks and the heads of the industrial establishments (who often are represented on each other's directorial boards) jointly work and exploit the masses of the people. In this relation between the banks and the industrial establishments, Fascism has brought a change. The rôle of the banks has been diminished and that of the industrial establishments has been increased in importance. Krupp and Thyssen are to-day not only masters of their own firms, they are, at the same time, masters of the German banks; and what is more: they are masters to such a degree of the whole of Germany that they transferred a great part of the work the banks did up to now, directly to the State. The State has become the financier of the Krupp and Thyssen and Flick. The State issues loans and uses the loans for large orders to the armament industry. If investments are necessary, either the State finances them through corresponding profits of the armament manufacturers—or if the investments are necessary from a military

FASCIST ECONOMY—CAPITALIST OR NOT?

point of view, but unprofitable, the State has to make these investments directly. The banks have become financial instruments of the State, which in turn is controlled by the armament industry. The joint rule between industrial capital and bank capital has in many respects been broken by the armament industrialists, who are now sole masters ruling through the State, which as one of its instruments uses the banks. Many other less important changes in the structure of finance-capitalism have taken place under Fascism—but the space at our disposal does not permit us to describe them even summarily.



A final question of importance in this connection must, however, be answered quite clearly. Does Fascism present a new stage in the development of capitalism? It is obvious that the development from the so-called liberal capitalism to monopoly capitalism, or imperialism, was an organic one. Monopoly capitalism is a stage in the development of capitalism. Is Fascism a stage similar to imperialism or is it a certain phase in the development of imperialism itself or is it an episode?

The answer is: Fascism is a certain form of government which the ruling class uses under certain historical circumstances in the stage of monopoly capitalism or imperialism. It is no stage in the history of capitalism; it is no sub-stage or phase in the history of imperialism or monopoly capitalism; it is an episode. If, on the one hand, the ruling class sees no other way out of its difficulties, and if, on the other hand, the working class and the other groups belong-

GERMANY'S ECONOMIC POSITION

ing to the masses of the people are strong enough to endanger the position of capitalism, and yet if they are disunited, and thus too weak to stop capitalism taking this last way out, then finance-capitalism becomes Fascist. Then the strongest group within the ruling class succeeds in forcing the other finance-capitalist groups to see that the only possibility for them to keep in power is to give up part of their advantages, to undergo certain restrictions and to follow the lead of the heavy, the armament industries. These advantages which the other finance groups have to give up, go to the armament industries, to the most reactionary, most chauvinistic and most imperialist group within finance-capital. The only force, however, which can dislodge the armament industries from their position again are not a united group of other finance-capitalists. They have lost for ever their rôle as rulers or co-rulers of a capitalist society. The only forces capable of overthrowing Fascism are the united masses of the people: the wage earners and the white collar workers, the peasants and the intelligentsia, the small shopkeepers and the craftsmen, members of the liberal professions and the small State officials, the soldiers and the lower clergy, the Social-Democrats and the Catholics, the Communists and the Confessional Protestants. If they all are united, then the Fascist regime can and will be overthrown, and a free democratic People's Front Germany will be created.

CHAPTER IV

REFLECTIONS UPON A STANDARD OF LIVING POLICY IN A FASCIST COUNTRY

Assuming that a policy is directed, as the German economic policy is, in fact, upon the production of as many and as good armaments as possible; assuming that this policy is not based upon conditions as they are found, but goes further and is directed upon changing conditions in such a way that more and better armaments can be produced than initial conditions warranted. How should such a policy proceed?

We have investigated one side of the problem: such a policy must try to increase the production facilities, it must exhaust existing capacities and it must increase the capacity to produce by giving economic, financial and political support to the armament industry at the expense of other industries and at the expense of the masses of the population. But there is another side to the problem.

In a country like Germany, where raw materials are chiefly imported, such a policy requires a restriction of imports for non-armament use in order to increase as fast as possible imports for armament purposes. The effect of this policy is a serious setback for civilian, especially for consumer goods industries. In

GERMANY'S ECONOMIC POSITION

the same way the labour force available for consumption industries, home produced raw materials usually made available for the consumption industries, and financial support given to the consumption industries will suffer a severe diminution, because all the possible support which finance, raw materials and labour can furnish has to be given to the armament industries.

Now, if the level of production of consumer goods industries has to be kept down in order to increase production of armaments, then, naturally, also the purchasing power of those who buy consumer goods has to be kept down. Therefore, an armament production policy, such as the German one, requires, as counterpart, a purchasing power policy, the aim of which is to keep the purchasing power of the masses as low as possible. Any increase in purchasing power means increased demand for consumer goods. Any increased demand for consumer goods means the need for increased production of consumer goods. But any increase in the production of consumer goods means a relative setback in the production of armaments. A considerable increase in the purchasing power of the masses of the population would very seriously hamper the programme of producing as many armaments as possible.

The only reasonable policy from the National Socialist point of view is therefore to keep the standard of living as low as possible.

In passing, however, one must remark upon one middle way which at the same time allows increased purchasing power and increased military preparedness: and that is the curious phenomenon of the so-

STANDARD OF LIVING IN A FASCIST COUNTRY

called people's car and similar products. For more than five years German industry has been engaged on experimenting with a car which, while using chiefly home-produced raw materials, can both be sold cheaply and guarantees good profits. If, in the course of the armament programme, it is necessary to raise the wages of certain categories of skilled workers and salaried employees, then it is also necessary to direct their increased purchasing power towards goods which are consumer goods, the mass possession of which, however, increases, at the same time, *the potentiel de guerre* of Germany: and the ideal product of this kind is the people's car, which would absorb any increase in purchasing power and which would greatly contribute to the motorisation of the German people and, at the same time, in case of war, of the German army. Of similar character, though less important, is the production of motor-cycles, successive issues of improved gas-masks, etc.

But if one leaves out of account this restricted number of commodities which have the rare quality of simultaneously absorbing mass purchasing power and increasing the military strength of the country, it may be said that it is generally detrimental to an armament policy if too many consumer goods can be bought, that is, if the purchasing power of the masses of the people increases.

To declare that the National Socialist Government has failed because it has not succeeded in raising the general standard of living is simply an admission of complete failure to grasp the principles of a policy of intense armament under Fascism. Nothing is further

GERMANY'S ECONOMIC POSITION

from the aims of the Nazi Government than a desire to raise the general standard of living: for that would mean the failure of its armament policy.

But is it really true that the National Socialist Government does not intend to raise the general standard of living? It is certainly. For not only is the existence of such a policy a very simple and logical conclusion from its armament policy, but the leaders of the National Socialist party and Hitler himself have often enough clearly stated it themselves.

One of the fundamental principles, proclaimed again and again by National Socialist leaders who speak on the standard of living, always was and is still to-day:

"Stable wages and stable prices."

The standard of living must in all circumstances be kept stable. Since this was one of the first proclamations made at the very beginning of the National Socialist regime, it could mean nothing but that the standard of living of the German people must be kept on the crisis level, still prevailing in the beginning of 1933.

One year after the National Socialist regime began, on March 21, 1934, Hitler explains more explicitly:

"The income is really nothing else but the expense budget, and the expense budget of a people is determined by the total amount of goods produced and therefore available for consumption."

The income, Hitler quite rightly says, depends generally upon the quantity of (consumer) goods produced—and consequently, since the production of consumer goods has to be kept down in order to give

STANDARD OF LIVING IN A FASCIST COUNTRY

more facilities to armament production, wages and the standard of living have to be kept down too.

Quite rightly, horrified from the point of view of National Socialist policy, the financial editor of the *Völkische Beobachter* exclaims in the standard economic publication of the National Socialists *Die dynamische Wirtschaft* (The Dynamic Economy), by Fritz Nonnenbruch, p. 224:

"Imagine the demand for butter and meat, if each German had an income of at least 200 marks (about £10 per month!)."

This would indeed be unfortunate! Germans must desire guns, not butter. If a German worker were to earn almost as much as an English unskilled worker, the whole basis of the rearmament programme would be destroyed. It would mean increased imports of foodstuffs and textiles; it would mean increased production of consumer goods; it would mean more money, more raw materials, more labour spent on the production of consumer goods; all of which would result in an absolute or at least a relative decrease in the production of armaments. Such a state of affairs would be directly opposed to that which the fundamental principles of National Socialist policy demand.

On the first of May, 1937, Hitler said:

"It is very easy to-day to go to the people and say: We increase salaries and wages . . . and then to-morrow we increase prices. . . . This is popular at the moment. But the catastrophe must come. This is the most fundamental principle of national economy: An increase of purchasing power and,

GERMANY'S ECONOMIC POSITION

consequently, an improvement of living conditions can only follow an increase of production."

Quite clearly Hitler sees that an increase in wages, without a corresponding increase in the production of consumer goods, must lead to inflation and a consequent rise in prices, which can only be detrimental to the economic development. The only way to guarantee that a rise in wages will have a good effect is to increase the production of consumer goods. But an increase in consumer goods production would be detrimental to the development of the armament programme, and therefore a rise in wages is impossible.

The National Socialists are therefore very good economists, as far as the problem of the relation between the production of consumer goods, production of armaments and wages and prices is concerned.

This National Socialist economic theory found its clearest expression in the speech made by Dr. Schacht on November 28, 1938, to the economic section of the German Academy. He said :

"The less the people consume, the more work can be done on armaments production. The standard of living and the scale of armaments production must move in opposite directions."



Indeed, they must—under Fascism. For under Fascism military preparedness means aggression, means millions of soldiers armed to their teeth, means tens of millions of civilians held together temporarily by terror, and all of them suffering privations.

STANDARD OF LIVING IN A FASCIST COUNTRY

In a democratic country which replaces terror by voluntary discipline, not only guns are produced, but also butter and bread—and every democrat knows that in the end democratic morale will not only endure hardships much longer and better, but will produce also more weapons than a system of terror and slavery and misery.

CHAPTER V

THE STANDARD OF LIVING OF THE GERMAN PEOPLE

The standard of living of the German people is to-day about the same as in 1932, when the economic crisis was severest. There are some exceptions, but on the whole one can say that the German lives on the standard he has lived six years ago, that he lives considerably below the standard he lived 10 years ago, and that for the first time in the whole history of industrial capitalism the standard of living of a people has barely improved in a period of rapidly increasing production.



Let us begin with the workers and the salaried employees. Wage rates and salary rates have, according to official statistics, declined by about 3 per cent. since 1932. That is, the rate of pay for fitters and carpenters and spinners and miners and salaried employees in a department store or a bank or an insurance office has on the average declined by about 3 per cent.

Average weekly earnings, on the other hand, have increased. According to official statistics, they were, in 1938, about 18 per cent. higher than in 1932. This is not to be explained by the fact that German em-

STANDARD OF LIVING OF GERMAN PEOPLE

employers had pity on the German workers and suddenly decided upon the unique measure of paying more and more above the rate. The increase in average weekly earnings is due to the following causes:

(1) Workers in Germany have to work to-day at least 10 per cent. more hours than formerly. Thus more than half of the increase in average earnings is due to a prolongation of the working week.

(2) With the rapid increase in armament production and the relatively very slow rise in consumption goods production, more and more workers were employed in industries which pay relatively higher wages. If, for example, wages in all industries remain stable, but if the number of workers in industries paying relatively higher wages increases very quickly, then it is only natural that average wages increase in spite of the fact that the wage of the individual wage earner in the metal factory and in the textile industry does not change.

But one further fact must be remembered. The rise of 18 per cent. refers to gross wages, and not to net wages; it does not take into account the rapid increase in deductions from wages. The *Statistische Reichsamts* estimates the increase in taxes and social insurance contributions between 1932 and 1938 to be $1\frac{1}{2}$ per cent. This does not include the numerous other contributions for "Winter-Help," A.R.P., "Strength through Joy," "Hitler-Collection," and so on, which again amount to about $1\frac{1}{2}$ per cent. of the average wage. Instead of 18 per cent., actual weekly earnings have in fact increased only by about 15 per

GERMANY'S ECONOMIC POSITION

cent., two-thirds of which is due to an increase in the number of hours worked per week.

How have real wages, how has the purchasing power of the worker developed? According to the official cost of living index, the cost of living has increased between 1932 and 1938 by 5 per cent. Thus, we arrive at an increase of real wages of about 10 per cent., the same as the increase in the number of hours worked. This would lead us to the conclusion that hourly real wages have remained stable since 1932, but that because of the increase in the number of hours worked the purchasing power of the weekly wages has increased.

The official cost of living index, however, is not too reliable. Numerous facts are not taken into account. One among them is, for example, the deterioration of the quality of goods bought. If, for example, a suit of working clothes is of so bad a quality that it lasts only half as long as the former and better one, then the cost of suits has in fact doubled, even if the price of the individual suit has not changed. Or if the nutritive value of the food bought is decreased through adulteration, then the cost of food has risen, even if the price of one pound of bread, for example, has not changed. Or, if the official index still assumes that the worker can buy a number of cheap commodities which in fact are too scarce to be bought in the usual quantities, and if he has to replace these commodities by other and more expensive ones (for instance, part of the margarine has to be replaced to-day by butter), then again we have a case where the actual increase in the cost of living does not find expression in an in-

STANDARD OF LIVING OF GERMAN PEOPLE

vestigation of the price of the individual commodity. If one takes all these points into account, it is rather an underestimate if one assumes that the cost of living in Germany has not risen, as officially claimed, by 5 per cent., but that it has risen by 10 to 15 per cent.

Thus, we come to the conclusion that the purchasing power of the German worker is to-day at best about the same as in 1932.

At the same time one must realise, however, that even the same purchasing power as in 1932 means to-day less to the German worker than six years ago. For the intensity of work, the speed-up has increased rapidly under National Socialism. Greater intensity of work means the need for more food in order to restore the working power. If now the intensity of work has increased, and if at the same time the purchasing power of the worker has remained about the same, then it is obvious that he is no more able to restore his working power to the same degree as he did six years ago.

The conclusion to be drawn from these facts is that the standard of living of the German worker, purely looked at from the economic point of view, has deteriorated as compared with 1932.

In this connection, and in this booklet, we have no opportunity to deal with all the other deteriorations in the living standard of the German worker; we do not deal with his loss of freedom or organisation, with his loss of numerous liberties which he enjoyed before.

But if we remember all these losses, and if we then look at the development of his purchasing power, which has remained at best stable on the lowest crisis

GERMANY'S ECONOMIC POSITION

level, and if we look, at the same time, at his purchasing needs, which have increased because of the increased intensity of work, then we can easily realise under what conditions the German worker has to work and live under National Socialism.

Probably even worse than the development of conditions among workers has been the development of the standard of living of the salaried employees, the white collar workers. Perhaps the intensity of work has not increased as much among them as among the workers. Their wage rates have moved about parallel to those of the workers. The cost of living has developed for them in about the same way as for the workers. The same holds true of taxes, social insurance contributions and deductions.

But in one point the salaried employees are definitely worse off. Though their working time has been increased, their salary has not increased correspondingly. If a worker works one hour longer, he receives at least one more hour's wage. If a salaried employee works one hour longer, he very rarely receives more pay. At the same time, the working week has not been lengthened as much for the salaried employees as for the workers, so that even if he would get more money, he would not get as much more as the workers, since the amount of overtime the salaried employees have to work is smaller. If we remember, on the other hand, that it was just the lengthening of the working week which helped to keep real wages at least in the neighbourhood of the 1932 level, then we easily realise why salaries to-day and their purchasing power are probably at least 5 to 10

STANDARD OF LIVING OF GERMAN PEOPLE

per cent. below the crisis level of 1932. And what holds true of the salaried employees applies also to the hundreds of thousands of small State and Local Authorities' officials. They also have to live to-day on a standard which is below that of 1932. And these officials, as well as the salaried employees, have incurred, like the workers, in addition to economic losses, very numerous losses of liberties which they formerly enjoyed.

The retailers have to suffer almost as much as the workers and salaried employees. The National Socialist promise that the big department stores would be requisitioned in their favour was, of course, not kept. On the contrary, tens of thousands of small retailers have been driven out of business because "this branch of national economy is overcrowded."

Total turnover in retail trade increased from 1932 to 1938 by 46 per cent., while at the same time the total national income has increased by 67 per cent. The share of retail trade in the total national income has declined since 1932 by 14 per cent. How was it possible for the retailers to fare so badly as compared with national economy as a whole? The reason is a very simple one: Firstly, national consumption was kept down as much as possible. This could not be counterbalanced by comparatively rapid increases of sales to military and Government authorities of furniture, and similar items. Secondly, in order to raise the profits of manufacturers, as well as wholesalers, as much as possible without driving prices too high, the margin between wholesale and retail prices was cut as much as possible to the disadvantage of the

GERMANY'S ECONOMIC POSITION

retailers. Finally, the retailers were heavily burdened with forced collections just like the workers, and the enforcement of tax laws against them has become extremely severe.

The diminution of the gap between wholesale and retail prices is very obvious if we look at the official price indices. According to official data, wholesale prices of industrial and agricultural consumption goods have increased between 1932 and 1938 by about 15 per cent., while retail prices at the same time have increased only by about 5 per cent. In reality, both have increased more—but the official figures are right in showing that the retailer had to pay from year to year more than he could add to the retail price. If one, furthermore, takes into account that a rise in turnover does not mean a corresponding rise in the quantity of goods sold, since even retail prices increase, then the rise of 46 per cent. in retail turnover very quickly dwindles to a very much smaller figure. If we assume that retail prices have actually increased by about 15 per cent., and if we assume a relative loss of 10 per cent. because of the diminution of the gap between wholesale and retail prices, we arrive at the conclusion that actual turnover in quantities has not increased by more than 15 per cent. Furthermore, we find that the rise of turnover was very unequally spread over the different branches of retail trade: retail trade turnover in the food shops increased by less than 30 per cent. as compared with an average increase of 46 per cent.; in furniture shops turnover increased by 100 per cent.; in shops furnishing offices with machines, paper and similar things, turnover has

STANDARD OF LIVING OF GERMAN PEOPLE

risen by almost 200 per cent. The nearer the trade to the armament industry, or to the State apparatus, the larger the turnover-increase; the nearer the trade to the necessities of the masses of the people, the lower the turnover-increase. One is probably right in estimating that the retailers of food are worse off than in 1932, that the retailers of clothing are probably not better off than in 1932, but that the retailers of furniture, office utensils, and so on, are better off than in 1932.

There is many a retailer in Germany to-day who lives at a lower standard of living than many wage earners.

The small artisan is probably even worse off. One of the chief reasons for this development is the fact that the National Socialist system is interested in making as many artisans as possible bankrupt, in order to drive them, as skilled workers, into the factories. They are not able to get the necessary raw materials to continue their business. They are persecuted even more brutally than other groups by tax officials. They are checked in every direction in which they try to escape from complete bankruptcy, because it is the patriotic duty of every official to provide the factories with as much skilled labour-power as possible. The nearer the craft to the armament industry, the more ruthless, of course, the drive against the artisan. Most endangered, therefore, are the artisans in the metal industry. The total number of small artisans exterminated by National Socialism reaches to-day almost a quarter of a million. 250,000 small artisans with their families, and apprentices

GERMANY'S ECONOMIC POSITION

and journeymen, have been deliberately driven out of business. At least half a million men have been driven from their business into the factories—and all that for the sake of accelerating war preparations.

The workers are brutally exploited, the salaried employees are perhaps in some respects even worse off than the workers, the small retailers are bled severely—but worst of all is the fate of the small artisan, whose extermination lies in the interest of the National Socialist system. He belonged to those groups within the masses of the German people which to a considerable extent believed in Hitler when he came to power in 1933—he has been most cruelly disappointed.

The peasants represent the last of the large groups comprising the German people. Their fate has been a sorry one, too. The peasants in Germany are chiefly producing cattle and dairy products, while the big estate owners are cultivating crops. The peasants are in a certain way dependent upon the big estate owners, since the latter produce the fodder needed by the peasants in so far as it is not imported. If we compare the development of prices of fodder and prices for dairy produce, we shall find at once one reason for the deterioration in peasant conditions. During the last five years prices of dairy products have increased by about 3 per cent.; prices of fodder have increased by about 12 per cent., or four times as much. The same process we have observed with the retailers has taken place with the peasants. The retailers have smaller and smaller gains because of an increase of wholesale prices far above the increase of retail prices; the

STANDARD OF LIVING OF GERMAN PEOPLE

peasants have smaller and smaller gains because of an increase of raw material prices (fodder) far above the increase of the prices of the finished products (dairy produce). A further cut into the income of the peasants has been made by the numerous decrees forbidding the direct sale from the peasant to the consumer; in this way the peasant could formerly pocket the margin between the producer and the wholesale price, as well as that between the wholesale and the retail price. To-day he is obliged to sell all his produce to the State-controlled wholesalers' organisations.

Few groups have to feel the economic dictatorship of National Socialism as hard as the peasants. They cannot sell to whom they want to. At the same time, they are not free to sell as much or as little as they want to. The State prescribes what percentage of their grain they have to deliver to the State. They are not allowed to produce and consume one single pound of butter without the permission of the State. The egg eaten by the farmer has been "stolen" from the State if he has not first obtained permission to have an egg for breakfast or supper. But not only his sales are controlled. He is not allowed to produce what he wants to. If the State wants him to change from chickens to pigs, he has to change from chickens to pigs. If the State wants him to change from pigs to rye, he has to change correspondingly. Production, as well as sales and consumption, is controlled.

They are controlled by a whole army of inspectors, which the peasant has to feed; they are controlled by

GERMANY'S ECONOMIC POSITION

the *Reichs-Nährstand* (Reich Food Estate), which the peasants have to finance.

But the control goes even farther than indicated above. They are not only controlled as to production, consumption and sales. They are forced, for example, to buy certain quantities of fertilisers prescribed by the Reich Food Estate, and a plan is proposed to force them also to buy a certain number of lorries, etc., in order to have as many lorries available as possible in case of war.

While one is probably right in saying that the small artisan is in the worst position because the National Socialists want to exterminate him, one may say with equal truth that probably no group is so hedged in by controls as the German peasant, who often is not only hungry, but whose hunger is even controlled and regulated by the Reich Food Estate.

There is one group, however, in Germany whose position has improved in recent years; the improvement was really fantastic, and though the group itself is very small, it is necessary, for reasons obvious at once, to point out the development of its condition: that is, the employers' group.

According to official statistics, average dividends have increased from little over $2\frac{1}{2}$ per cent. in 1932 to almost 6 per cent. in 1938. The value of shares has risen from somewhat over 5,000,000,000 marks to more than 11,000,000,000 marks. Undivided profits, which amounted to 175,000,000 marks in 1933, have risen to 2,200,000,000 marks, that is, more than 12 times up to 1937, and to-day they are probably 15 times as large.

STANDARD OF LIVING OF GERMAN PEOPLE

The employers have realised immense gains indeed. All of them, if they are big employers, have gained something. But most of the gains have gone, and are still going, to the armament employers. While employers in the textile industries, in ship building, in the food industries have made smaller profits than they usually do during a period of rising business activity, employers in the iron and steel industry, in the electro-industry, in the chemical industry, in the construction industry have made profits of which they never even dreamed in peace time.

The larger the employer and the nearer his business to the business of war, the greater the profit and the easier it was and is earned. Krupp earns per hour as much as many a worker in a whole year, and there are quite a number of employers who earn per day more than a worker in a whole year. Their income has increased from year to year, and from year to year a larger percentage of the total national income is diverted into their pockets.

CHAPTER VI

NATIONAL SOCIALIST ECONOMY AND FOREIGN POLICY

Fascism armed Germany in order to be able to pursue its imperialist aggressive policy. The armament policy in turn has led to an aggressive policy in order to secure the raw materials necessary for armaments.

The conquest of Austria has increased somewhat the German iron-ore supply—but neither nickel, nor zinc, nor copper, nor any of the other important non-ferrous armament metals can be supplied by Austria. On the other hand, Austria is even more dependent than Germany upon food imports and the industries which export articles for consumption are dependent upon large imports of raw materials. On the whole, the conquest of Austria is not an economic gain, from the point of view of the armament industries. The conquest of Austria was politically and strategically necessary in order to rape Czechoslovakia.

The Sudeten territory is an even greater economic liability from the point of view of the armament industry than Austria has been. No industrial raw

ECONOMY AND FOREIGN POLICY

materials of any importance (with the exception of lignite, which Germany has already in sufficient quantities) can be found in the Sudeten territory, while its food balance is heavily passive, and really enormous quantities of imported raw materials are necessary to feed its largely consumption goods producing industries. The Sudeten territory was conquered for political and strategic reasons.

The territorial conquests of Hitler-Germany in 1938 are only jumping-boards to further conquests really useful from the point of view of the armament industries.

The first partially useful conquest from the point of view of the armament industry was the incorporation of Bohemia and Moravia. Here the National Socialists found a splendidly equipped armament industry—although the raw materials to feed the factories are missing here too, and the food balance of these countries is unfavourable. Thus the conquest of Moravia and Bohemia increases in many ways the difficulties of the German armament industry.

Many people in England and France think that National Socialism will keep peace in the West, being occupied with further conquests in the East, made possible by the acquiescence of the democratic powers in the conquest of Austria, Bohemia, Moravia and Memel. But what can the Balkans offer to the German armament industry?

GERMANY'S ECONOMIC POSITION

RAW MATERIAL PRODUCTION OF BALKAN COUNTRIES AND GERMAN IMPORTS*

1,000 tons (with metals 1,000 tons content)				
Countries	Iron Ore	Copper Ore	Lead Ore	Zinc Ore
Bulgaria	8	—	4	—
Greece	—	—	8	7
Jugoslavia	315	44	71	48
Rumania	58	—	1	5
Czechoslovakia	591	2	6	2
Hungary	100	—	—	—
Balkans	1,072	46	90	62
German Imports	9,800	330	155	62

Countries	Tin Ore	Nickel Ore	Bauxite	Mineral Oil
Bulgaria	—	—	6	—
Greece	—	2	130	—
Jugoslavia	—	—	358	—
Rumania	—	—	11	8,676
Czechoslovakia	—	—	—	26
Hungary	—	—	510	—
Balkan Countries	—	2	1,015	8,702
German Imports	18	7	1,400	5,000

Countries	Cotton	Wool	Rubber
Bulgaria	9	10	—
Greece	17	8	—
Jugoslavia	—	14	—
Rumania	—	30	—
Czechoslovakia	—	1	—
Hungary	—	7	—
Balkan Countries	26	70	—
German Imports	400	160	130

Naturally, all these raw materials are not at the disposal of the German armament industry, since some are exported to other countries and some are used in the factories of the Balkan countries themselves. If

*Production figures always for the year of highest production. German import figures refer to Germany including Austria in 1937.

ECONOMY AND FOREIGN POLICY

we assume that Germany, without increasing her armaments above the 1937 level in order to control the economic development of the Balkan countries (a much too favourable assumption), and if we furthermore assume that none of these countries is allowed to export to any other but a Balkan country; and if we assume that the factories in the Balkan countries are not expanded, then Germany would have at her disposal the following quantities:—

POSSIBLE BALKAN SUPPLIES FOR GERMANY (1,000 tons)

Raw Materials	Supplies from Balkans	German Imports
Iron ore ...	—	9,800
Copper ore ...	—	330
Lead ore ...	20	155
Zinc ore ...	—	62
Nickel ore ...	1	7
Tin ore ...	—	18
Bauxite ...	850	1,400
Mineral oils	8,000	5,000
Cotton ...	—	400
Wool ...	—	160
Rubber ...	—	130

It is obvious that as far as armament and other raw materials are concerned, the Balkan countries can supply to Germany nothing of importance but bauxite and mineral oils. As far as foodstuffs are concerned the situation is somewhat better but, though this is a valuable fact in case of war, it does not solve the basic needs for the German armament industry.

The conclusion we can draw from these facts is that however seriously German economic and foreign policy is engaged in conquering the Balkans, the Balkans again are nothing else but a jumping-board to further

GERMANY'S ECONOMIC POSITION

really valuable conquests for the armament industry. The need for such valuable conquests becomes greater with the number of unprofitable jumping-boards conquered by Hitler-Germany. The addition of Austria and Czechoslovakia makes further conquests not less but considerably more important.

It would only be sound policy for Fascist armament industry to turn as quickly as possible to "valuable" conquests such as the East of France, which, for the armament industry, is more valuable than the whole Balkans, such as Spain, a number of British colonies, and especially, also, the Near East and India, for which the Balkan countries provide the strategic background.

The drive against the Soviet Union is an important factor in the whole political and economic conception of National Socialism. But if the German Fascists were formerly of the opinion that a war against the Soviet Union would be one of the first adventures to be undertaken, they are now of a different opinion. The Soviet Union has been the only country which has shown firmness against Fascist aggression, it is the only country which does not give in at the slightest chance to Fascist menaces, and she is better prepared for war than any other country in the world. For this reason, it is now clear that the Western Powers will be the first "really worthwhile victims" of Fascist aggression.

The Berlin-Rome axis expects the light to come from the West, and the present attitude of the English and French Governments is to let the light appear as attractive and luminous as possible.

ECONOMY AND FOREIGN POLICY

But Hitler-Germany is by no means satisfied with territorial conquests. She has another, also very important, string to her bow, and that is aggression through foreign trade—a string which for the present has a far greater radius than territorial aggression. Through her foreign trade offensive she can hurt everybody in every part of the world.

In his speech to the German Reichstag on January 30, 1939, Hitler gave the slogan: "Export or die!" And it is not difficult to see which alternative he has decided to choose.

One can expect in connection with the inflationary policy within Germany a trade offensive on the world market by Hitler-Germany such as the world has not yet seen. Goods will pour into the world markets at prices which will spell ruin to English and French and American trade everywhere if no counter-measures are taken. The masses of the German people will have to pay thousands of millions of marks in order to indemnify German employers who sell goods on the world market at prices ruinous otherwise.

The former German colonies, the Empire, the South American markets, what Japan has left of the East Asiatic markets, the countries of Europe—they will all be swamped with cheap German goods, and the only possible answer to this will be a trade war. It is true that there is a possibility of further success for Hitler-German blackmail if the present British and French foreign policy is to be continued; it is true that Western democratic export trades (in contrast to the American export trade which Mr. Roosevelt effectively protects) may suffer severely. But it would only be a question of time until British and French

GERMANY'S ECONOMIC POSITION

interests would be more effectively safeguarded, and the trade war would be started somewhat later than otherwise.

How long such a war would be confined to the field of trade is a matter of speculation; but it is no matter of speculation where it will finally lead to.

Thus the drive of the armament industry and the National Socialist Government for territorial conquests, as well as the trade war, will lead to a new world slaughter.

There is only one way out of this terrible situation, there is only one way which might yet lead to peace. If the democratic Powers stand up to Hitler to-day, then he might be forced to resign for some time his sinister plans. And this time gained for peace will be used by the German opposition to consolidate its position, to organise a large-scale offensive by the whole German people against the National Socialist system, to finally overthrow the Hitler Government. One of the worst enemies of the German people in recent years was the policy of continued support for Hitler by the British and French Governments. A change in this policy already will strengthen the position of the German anti-Fascists to such a degree that Hitler will not dare to lead the German people into war.

For the sake of world peace, for the sake of the interests of every single group in the British and French Empires, except the pro-Fascist traitors to the interests of the British and French people, it is necessary to give up the policy of so-called "appeasement," which leads straight to war, in favour of a policy of resistance against the Fascist aggressors, which will lead straight to peace.

CONCLUSION

WHEN WILL NATIONAL SOCIALIST ECONOMY BREAK DOWN?

Is there a so-called breaking point in the development of National Socialist economy? Is there a limit to which economic relations can be strained? Can one count on that at a certain point the system will explode?

Let us look at these possibilities more concretely and begin with the financial crisis. The question is often raised to-day: when will inflation have become a reality, when is the moment reached that prices increase visibly and from month to month, from week to week, from day to day? But has this question really anything to do with the question about the break-down of the National Socialist system? The class in power in 1922 and 1923 could preserve its power during and after the inflation. Is there any economic reason to assume that the National Socialists may not be able to do it?

There is a serious shortage of labour. If the armament programme is to be expanded, will not the intensity of work have to be increased to impossible heights in order to fulfil the armament plans? This is not necessary. Is there not the possibility of employing all the women in Germany just as to-day all the men are employed? And if the women's labour force is exhausted, there are the children. Children were employed already a hundred years ago in large numbers. Why not to-day?

There is a serious food shortage in Germany, and food conditions are worse than ever during the last fourteen years, yet there is no economic reason why the food shortage should not further increase—reaching the proportions of 1917 and 1918.

The raw material shortage for civilian goods is very serious to-day, but it was worse during the world war and the years of inflation. There is no economic reason why it should not be possible to lower even further the supply of raw materials.

Whatever the weak points of National Socialist economy, there is none which could not get considerably weaker from the purely economic point of view. It is hopeless and senseless to wait for a break-down of National Socialism because of purely economic reasons.

The question about the economic break-down of the National Socialist system is not a purely economic question, it is a political question. The National Socialist system will break down at the very same moment when the masses of the German people are united in their will not to stand it any longer and act accordingly. The National Socialist system will not break by itself for economic reasons, it will break only because the masses of the German people want to break it.

All those who are working for unity of the people, for active resistance against National Socialism, are doing the only thing which will lead to a "break-down" of the National Socialist system, and they deserve all the support which the people in other countries, and especially in Great Britain, can give them.

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